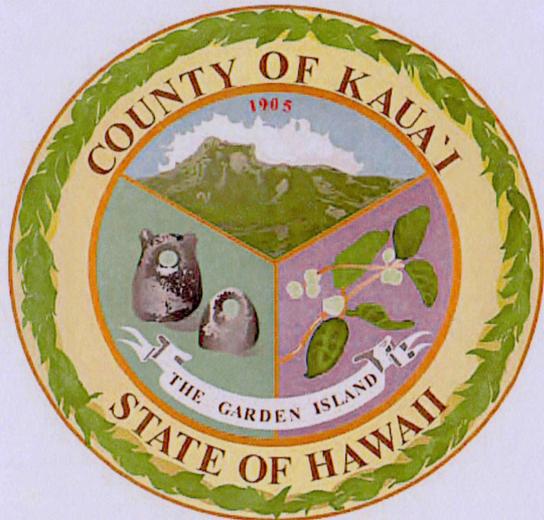


MANAGEMENT ADVISORY REPORT

County of Kaua'i, Hawai'i



For the Fiscal Year Ended
June 30, 2011

P-201.1

C-201-338

12/15/2011 Special
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COUNTY OF KAUA'I

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N&K CPAs, Inc.
ACCOUNTANTS | CONSULTANTS

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To the Chair and Members of the County Council
County of Kaua'i
Lihue, Kaua'i, Hawai'i

In planning and performing our audit of the financial statements of the County of Kaua'i, State of Hawaii (the County) as of and for the fiscal year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

However, during our audit, we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this report summarizes our current findings and recommendations regarding these matters. This letter does not affect our report dated December 15, 2011, on the financial statements of the County.

N&K CPAs, Inc.

Honolulu, Hawai'i
December 15, 2011

CURRENT FINDINGS AND RECOMMENDATIONS

11-01 REVIEW TREASURY TRUST ACCOUNTS

The County maintains fiduciary funds that are limited to agency funds. Agency funds are custodial in nature and are used to receive and disburse funds for an entity or individual that is not part of the County. Agency funds function as a clearing account and do not measure results of operations. The County has the following agency funds:

- Trust and Agency Fund
- Treasury Trust Fund
- Real Property Trust Fund

At June 30, 2011, the County had approximately \$1,176,000 in these treasury trust accounts. We reviewed 4 of 12 treasury trust accounts totaling \$1,079,210, noting the following:

- Public Auction Treasury Trust - the account holds a balance of \$28,621 from an auction held on May 15, 1996. The remaining balance of \$431,387 was from auctions held in 2008 and 2010.
- Public Works Fiscal Treasury Trust - the account holds 30 different deposits for a total of \$78,300 from May 9, 1986 through July 7, 2006. The remaining balance of \$272,000 was from current deposits from 2009 through 2011.
- Planning Treasury Trust - the department is using this account to deposit application fees collected and pay for public notice costs. The difference between the amount collected and the amount paid remains in the treasury trust account. Agency funds should not be used to measure results of operations and should be custodial in nature. The balance in the Planning Treasury Trust at June 30, 2011, was \$164,715.

Recommendation

The County should determine the proper disposition of the older balances held in the treasury trust accounts and implement procedures to require timely follow up on aging deposits. In addition, the County should review the use of the Planning Treasury Trust to ensure that the transactions recorded in the account are proper and determine who the balance in the account is being held for.

11-02 IMPROVE SEWER BILLING PROCESS

The County's commercial sewer billings are based on water consumption data obtained from the Department of Water. As of June 30, 2011, the County's sewer billings are approximately 4 - 5 months behind due to the manual process of obtaining the consumption information from the Department of Water. The current process requires the County to submit a listing of commercial accounts and the consumption billing period to the Department of Water to obtain the consumption data. This information is submitted on a manual worksheet and depending on the account, covers different billing periods. An example of the billing issues is as follows:

<u>District</u>	<u>Billing Date</u>	<u>Billing Period</u>
West Kauai	September 13, 2011	01/12 - 03/09/2011
West Kauai	September 13, 2011	05/23 - 07/06/2011
East Kauai	August 16, 2011	02/04 - 04/05/2011
East Kauai	August 16, 2011	04/06 - 06/03/2011

The total annual commercial sewer revenue is estimated to be approximately \$3.9 million of which, approximately \$1.3 million was billed after year end. Of this amount, approximately \$740,000 was estimated as the actual consumption information. However, the information was not available at the time the County's financial statements were being prepared.

The County's residential billings are based on a flat rate and are billed on a timely basis. We noted that July 2011's billing was for the months of June 2011 and July 2011.

Recommendation

The County should review the current process used for billing for the commercial sewer charges and determine whether it is feasible for the Department of Water to include the sewer charges in their billing process. This would help improve the timeliness of the billings and reduce the potential for billing errors.

CORRECTIVE ACTION PLAN

Bernard P. Carvalho, Jr.
Mayor



Wallace G. Rezendes, Jr.
Director of Finance

Gary K. Heu
Managing Director

Sally A. Motta
Deputy Director of Finance

DEPARTMENT OF FINANCE
County of Kauai, State of Hawaii
4444 Rice Street, Suite 280, Lihu'e, Hawaii 96766
TEL (808) 241-4200 FAX (808) 241-6529

December 15, 2011

Ronald T. Shiigi
N&K CPAs, Inc.
American Savings Bank Tower
1001 Bishop Street, Suite 1700
Honolulu, HI 96813-3696

Dear Mr. Shiigi:

Attached are the County of Kauai's responses and corrective action plans related to your fiscal year 2011 audit report finding and recommendations. We appreciate the opportunity to comment on the audit report.

Sincerely,

A handwritten signature in black ink, appearing to read "Wallace G. Rezendes, Jr.", is written over the typed name.

WALLACE G. REZENTES, JR.
Director of Finance

Attachment

An Equal Opportunity Employer

Ref. No. 11-01

REVIEW OF TREASURY TRUST ACCOUNTS

Auditor's Recommendation: The County should determine the proper disposition of the older balances held in the treasury trust accounts and implement procedures to require timely follow up on aging deposits.

Management Response: Real Property Collection (RPC) is aware of balances held from past auctions. Pursuant to Kaua'i County Code Sec. 5A-5.9 Disposition of Surplus Moneys, RPC has been following up with recommendations from the County Attorney's office to ensure that due diligence has been met to the extent of the law. We will meet with the County Attorney to establish new policies and procedures to disburse funds in a timelier manner.

End Date: On-going

Responding Person: Michelle Lizama, Real Property Tax Collection Supervisor
Phone: (808) 241-4271

Auditor's Recommendation: The County should determine the proper disposition of the older balances held in the treasury trust accounts and implement procedures to require timely follow up on aging deposits.

Management Response: The Public Works Fiscal Treasury Trust Fund holds cash deposits that are required per the Sediment and Erosion Control Ordinance #808. Significantly aged deposits will be reviewed for compliance per conditions of the applicable permit and released if the conditions are met. Attempts will be made for resolution of non compliant issues with the contractor and/or property owner. Any unresolved issues will result in revocation of the permit and a stop work order followed with release of the bond. A revised policy and procedure for a structured review and follow up of the permit cash bond deposits is currently being reviewed for approval.

End Date: On-going

Responding Person: Wallace Kudo, Public Works Chief of Engineering Division
Phone: (808) 241-4891

Auditor's Recommendation: The County should determine the proper disposition of the older balances held in the treasury trust accounts and implement procedures to require timely follow up on aging deposits. In addition, the County should review the use of the Planning Treasury Trust to ensure that the transactions recorded in the account are proper and determine who the balance in the account is being held for.

Ref. No. 11-01

REVIEW OF TREASURY TRUST ACCOUNTS (Continued)

Management
Response:

The Planning Department is aware of the balance that exists in the Planning Trust Fund (i.e. funding which is no longer needed to pay for the publication cost of public hearings for permit applications). Currently this fund holds the fees collected for higher class permit and Special Management Area application processing. Procedurally, funds are deposited into this account and mandatory publication notice fees are paid out.

In an effort to efficiently publish notifications, the department bundles a list of applications in a single notice rather than contracting with a newspaper for individual notices. This practice was initiated because publication costs for a single notice can now actually exceed the fees collected. In circumstances of shared publication, the processing fee charged is more than the shared cost of a single notice. Over time this difference can accrue a surplus in the trust account.

Decoupling the mandatory processing fee from the actual cost of publication could assist in better accounting of trust funds with regard to actual obligations and intake of funds. For example, actual publication costs could be invoiced to the applicant. However, a change in the ordinance authorizing the collection of fees and public hearing notices may be required.

Further, the Finance Department has requested that checks received by the Planning Department for non-accepted applications should also be deposited, and if an application is rejected, fees could be reimbursed. Some of the balance in this trust fund may also reflect these types of fees.

Also, the Planning Department receives State/Federal Funding which require separate budgeting. We also receive and process permit applications fees that require public hearing notices under regulations funded by the State/Federal funds.

End Date:

On-going

Responding
Person:

Michael Dahilig, Director of Planning
Phone: (808) 241-4057

Ref. No. 11-02 IMPROVE SEWER BILLING PROCESS

Auditor's Recommendation: The County should review the current process used for billing for the commercial sewer charges and determine whether it is feasible for the Department of Water to include the sewer charges in their billing process. This would help improve the timeliness of the billings and reduce the potential for billing errors.

Management Response: The Department of Public Works, Wastewater Management Division acknowledges and agrees with the conclusion that the current process for billing commercial sewer accounts should be revised to allow timelier billing. The recommendation to consider having sewer billing performed by the Department of Water is one of several approaches that could be a feasible alternative billing system. Regardless of which billing system is used, the complexity of reducing the lag in the commercial billing process is the impact on customers that will occur over the duration the billing cycle is advanced to become more current. The Division will be reviewing the options and feasibility of alternatives for making the transition to timelier billing, with input from the Finance and Water Departments and others in County Administration.

End Date: On-going

Responding Person: Ed Tschupp, Public Works Chief of Wastewater Division
Phone: (808) 241-4084